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QUARTERLY REPORT
to the
COUNCIL ON FOREIGN ECONOMIC POLICY

SINO-SOVIET BLOC
ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS

1 October 1958–31 December 1958

NUMBER 7

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AND
THE DEPARTMENT OF STATE

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SINO-SOVIET BLOC ECONOMIC ACTIVITIES
IN UNDERDEVELOPED AREAS
1 OCTOBER - 31 DECEMBER 1958

Principal Developments

1. During the last quarter of 1958 the Sino-Soviet Bloc continued its economic offensive in underdeveloped countries at the brisk pace which characterized its efforts throughout the year. Bloc economic development credits that were extended in the period October-December 1958 totaled \$230 million. In addition, the USSR extended a \$118-million credit to Iraq for the purchase of Soviet military equipment. These new credits brought the amount extended by the Bloc to underdeveloped countries during all of 1958 to more than \$1 billion compared with \$320 million in 1957. Total Sino-Soviet Bloc assistance to these countries since 1954 now stands at nearly \$2.4 billion, of which about \$800 million represent military credits.

2. The Middle East continued to be the major focus of Bloc economic penetration during the last 3 months of 1958. Bloc involvement in the area has increased markedly as a result of the expansion and proliferation of economic ties with Iraq. Of special significance in this period was the Soviet agreement to open a line of credit equivalent to \$100 million for the construction of the first phase of Egypt's High Dam above Aswan on the upper Nile. Announcement of Soviet financial and technical assistance for realizing this longstanding Egyptian ambition had a great psychological impact throughout the Middle East.

3. In a highly publicized breakthrough on the Latin American front, Argentina officially accepted a \$100-million line of credit from the USSR for the purchase of equipment for the development of the local petroleum industry. Oil drilling machinery worth approximately \$32 million already has been purchased under this credit.

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Bloc Economic Relations with Iraq

4. The progressive development of Sino-Soviet Bloc relations with the new Iraqi regime marked a significant broadening of Bloc economic activities in the Middle East. In October a Soviet-Iraqi arms agreement valued at \$168 million was concluded. Under this agreement the USSR will supply Iraq with a wide variety of military equipment, including jet fighters and small naval craft. Iraq was required to make a \$50-million down payment on the total purchase price, and the balance is covered by a 5-year credit. Three consignments of materiel, including tanks, land armaments, and vehicles, had arrived by the end of December. Soviet technicians are in Iraq to assemble the equipment and to instruct Iraqi personnel in its use.

5. Following through on trade overtures made immediately after the July coup d'état, all major Bloc countries had either signed or were negotiating trade agreements with Iraq by the end of the year. Agreements with Czechoslovakia, East Germany, Rumania, and the USSR providing for an exchange of Bloc capital and consumer goods in return for Iraqi agricultural products were concluded during the last quarter of 1958. In the agreements signed thus far, there is no provision for exports of petroleum from Iraq to the Bloc. Communist China, however, has evinced an interest in obtaining Iraqi crude oil. Commodity quotas established under these agreements have not been announced, but a marked upturn in Bloc-Iraqi trade can be expected. Heretofore, Bloc trade with Iraq has been insignificant.

6. With the arrival of a Soviet economic delegation in Baghdad early in January 1959, Soviet activity in Iraq took on a new dimension. Reports indicate that the Iraqi government will give the USSR first priority in granting awards for the construction of more than 20 of about 50 projects to be undertaken in the new development program. Development plans have not been completed, however, and details of the program will not be disclosed for a few weeks. There also have been reports that the USSR has offered a very favorable concessionary agreement to Iraq involving offshore regions recently released by the Iraq Petroleum Company. An Iraqi economic mission is scheduled to visit Moscow in the

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very near future to work out details of Soviet participation in the development program. There is no clear indication at this time that the USSR will provide financial assistance, but extensive planning advice and technical assistance certainly will be provided.

7. Because of its substantial oil revenues, Iraq, unlike other underdeveloped countries, is not in dire need of financial assistance for an economic development program. This estimate of Iraq's financial position, however, may have to be altered when the total cost of the program and the rate at which it is to be implemented have been determined.

8. The rapidity with which agreements have been negotiated indicates a strong inclination on the part of the Iraqi government to establish close relations with the Bloc, and in the 6 months since the Iraqi revolution the USSR has established a position of economic and political influence and prestige in Iraq.

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